

Spirits: Mixing it up

UK Spirits Category Report

August 2019

SCOTLAND MARKET
FOOD & DRINK INTELLIGENCE



The UK spirits category has seen value and volume growth over the past year

Spirit consumers opt for more premium drinks and enjoy experimenting with new drinks

IN ON- AND OFF- TRADE, THE SPIRITS CATEGORY IS PERFORMING VERY WELL WITH WHISKY, GIN AND RUM ALL IN VALUE AND VOLUME GROWTH YEAR-ON-YEAR

The spirit sector is seeing a trend towards consumers drinking less, but better quality. Consumers are increasingly willing to pay more for premium products and opt for smaller bottle sizes. At the same time, low-/non-alcoholic spirit alternatives are thriving due to the rising health awareness of consumers.

Spirit consumers enjoy experimenting with new drinks, flavours and brands which aids category's growth on- and off-trade. Unique and social experiences gain popularity among consumers which drives the popularity of cocktails and other mixer drinks.

IN RETAIL, SPIRIT SHOPPERS ENJOY BROWSING IN-STORE AND ARE MORE LIKELY TO MAKE IMPULSE PURCHASES WHEN BUYING SPIRITS

When buying spirits, brand and packaging are important purchasing factors. Branding plays an important part in decision making process as it provides reassurance. Stand-out packaging helps differentiate from competitors and is key to attract new customers.

Shoppers are increasingly interested in seeing information like cocktail recipes, mixer suggestions and other drink recommendations on the shelves which indicates a point of difference and educates the consumer.

UK spirits category performance

The UK spirits market is worth £14bn with 367m units sold

On- and off-trade volumes differ by spirit

UK Spirits category, On- and Off-Trade



Ratio of on- and off-trade spirit sales

	Value		Volume	
	On-Trade	Off-Trade	On-Trade	Off-Trade
Whisky	48%	52%	18%	82%
Vodka	61%	39%	23%	77%
Gin	52%	48%	17%	83%
Rum	66%	34%	31%	69%

Although on-trade provides circa 20-30% of volume sales, these sales provide considerable contribution to overall value sales



Scotch whisky sales have achieved a value of £1.8bn in the UK

Scotch whisky is Scotland's largest export with export to North America and Asia growing rapidly

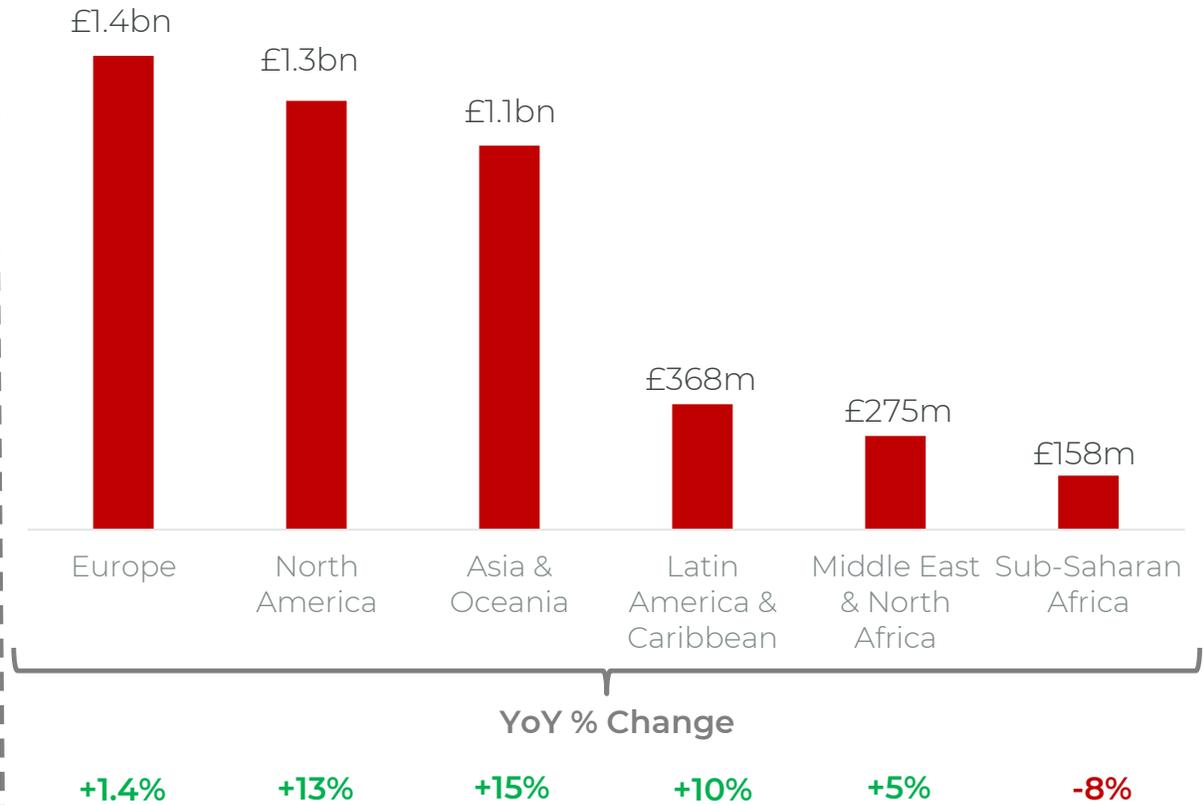
Scotch Whisky Consumption Sales in the UK, 2018

In the UK, the Scotch whisky category is worth **£1.8bn** (+5% YoY)



Scotch Whisky Export in value sales, 2018

41 bottles of Scotch whisky is exported every second



Retailers and suppliers are highlighting different aspects of the complexity of whisky by promoting the mixability of the product, educating consumers on distinct flavour profiles and offering whisky guides to grow its customer base.



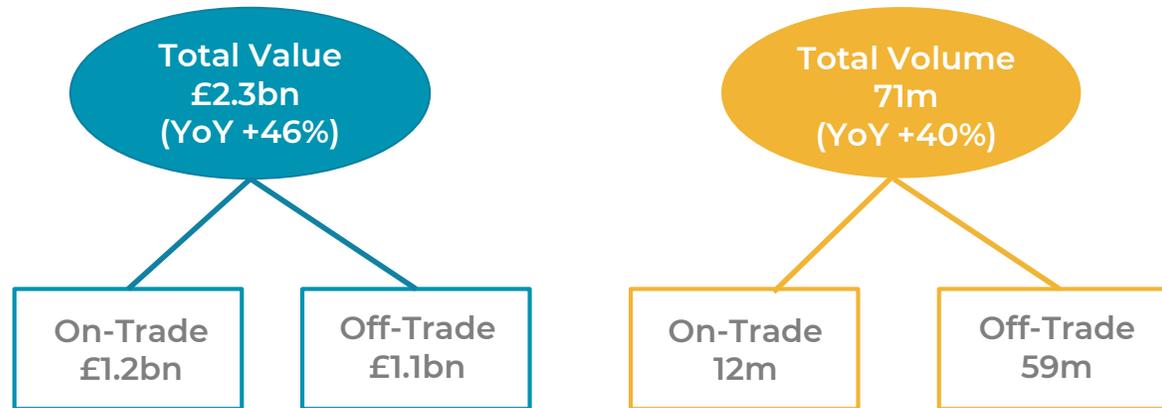
Flavour innovation and modern branding is thought to be key to attract the younger generation, who are currently switching to gin and rum.

In the UK, gin sales are worth £2.3bn with a rapid year-on-year growth

60% of volume sales fall in the standard category and 29% are premium

UK Gin value sales, 2018

70% of gin consumed in UK comes from Scotland*



Sector % share of volume sales



■ Economy ■ Standard ■ Premium ■ Super Premium

Gin Key Facts

- 
- ★ Gin category holds **20%** of UK spirits market
 - ★ Average of **6.9** gin brands stocked in on- and off-trade
 - ★ **247** new gin brands entering the on-trade in the last 5 years
 - ★ **65%** of gin drinkers like to try new and different brands and spirits
 - ★ **69%** of gin sales growth accounted for by pink gin

*Driven by Gordon's, Tanqueray and Hendricks

Source: CGA Gin Report 2019, Diageo Report 2019, Euromonitor 2019, The Grocer Report 2019

SCOTTISH
DISTILLERS
ASSOCIATION
PROMOTING THE CRAFT OF SCOTTISH DISTILLING

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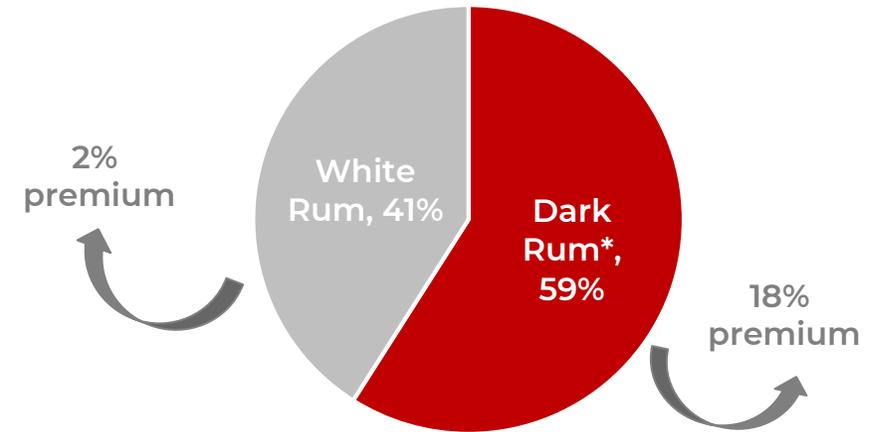
The UK rum sector is worth £1.4bn with 32m units sold

Dark rum accounts for 59% of category's value sales and is overperforming within the category

UK rum value sales, 2018



UK rum category in value sales, 2018



Dark Rum has seen an immense growth over the past few years with an increase in value by +9% between 2017 and 2018. With a value of £844m in 2018, rum value sales are estimated to grow up to £1.2bn by 2023.

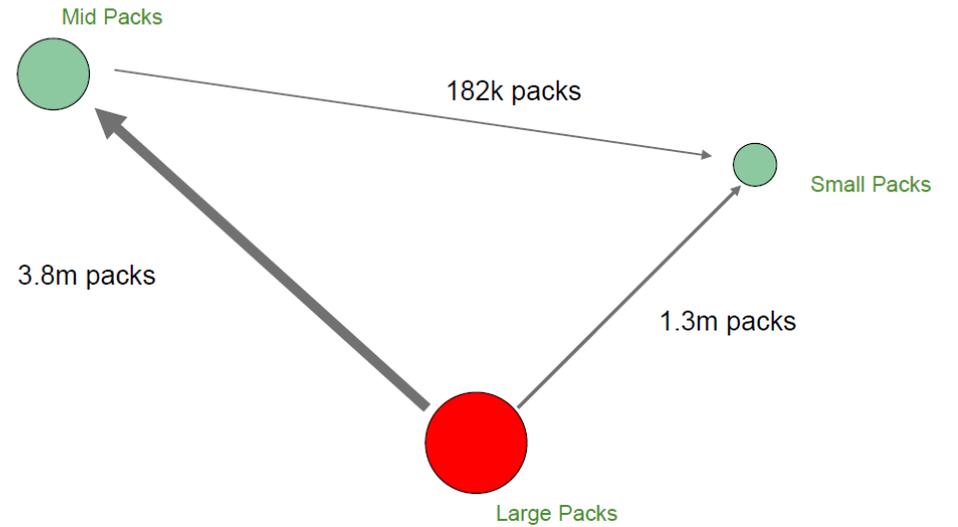
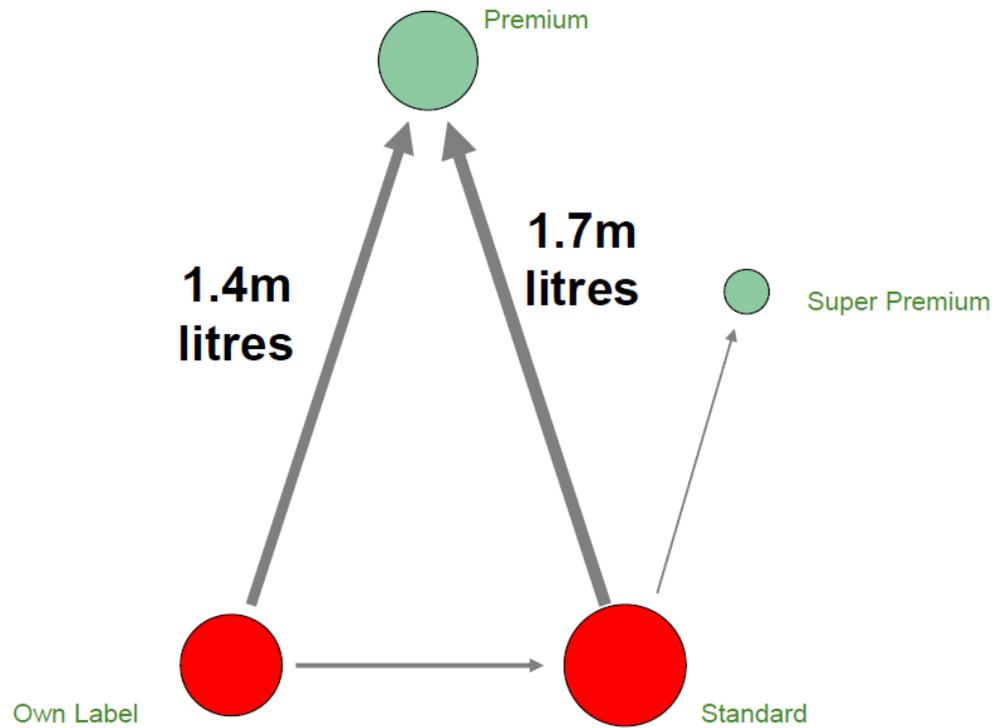
However, white rum sales have seen losses over the past year, dropping by -2% in the period between 2017-2018 with a value of £586m.



*Dark rum including spiced rum
Source: Euromonitor 2019

Consumers are moving towards more premium and smaller sized products

Indicating the trend towards drinking less but better quality



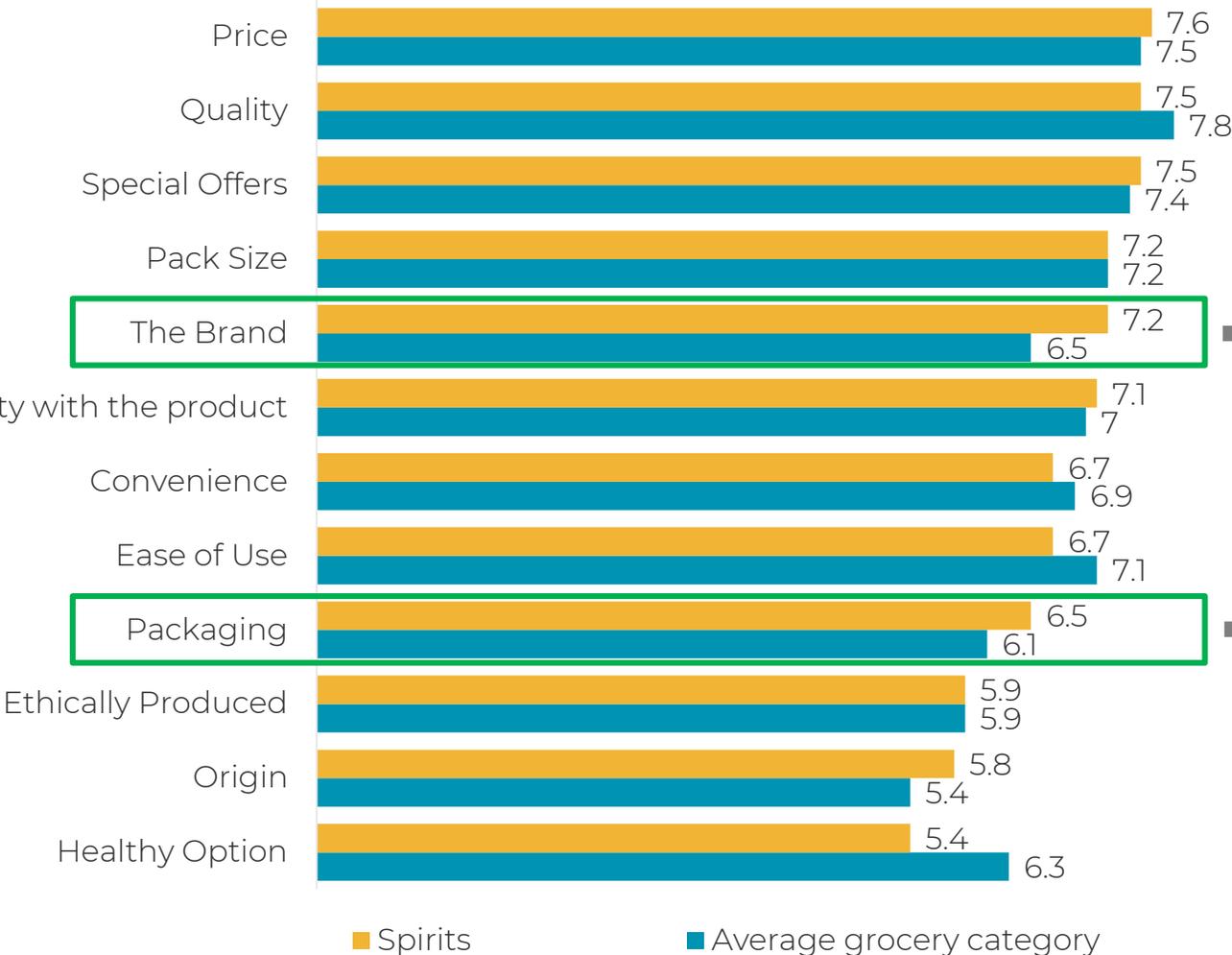
Arrows = indicates movement from one subcategory to another
Bubble size = total growth/decline

Source: SFD, Kantar Worldpanel 07/10/2018

Price has the greatest influence on shoppers when purchasing spirits

The brand and packaging design are also important to spirit shoppers

Importance of different attributes in shoppers' purchase decisions – spirits



Brands provide consumers with reassurance on quality and taste, as well as delivering trust and familiarity. New and niche brands need to demonstrate quality and reassure shoppers

It is important to evaluate packaging design in the context of the spirits fixture, to ensure your product stands out and clearly demonstrates a point of difference. Ensure the key features and benefits of your product are clearly displayed on the front of the pack

Source: IGD 2019, Category benchmark research, Jun-Sep'18. Base: 3,633 British supermarket shoppers

Spirit shoppers are more likely to enjoy browsing in-store vs other average categories

They also claim to make more impulse purchases when buying spirits



Information and ideas that spirits shoppers would like to see when browsing the shelves, include not only alcohol content and calories, but also cocktail recipes, mixer suggestions and recommendations

No and low alcohol plans are increasingly important

The trend towards reduced alcohol consumption is driven by growing health awareness

Low-/Non-alcohol trend

- ★ 1 in 5 adults in the UK don't drink alcohol and 25% of UK adults try to drink less
- ★ 12.5% of Scottish adults don't drink alcohol (552,000 adults)
- ★ 2 in 5 alcohol drinkers are moderating in Scotland
- ★ 14% Scottish moderators are doing so with low/ no alcohol
- ★ 41% of UK consumers reduce their alcohol intake to manage weight and 39% to improve their health



Low-/non alcoholic gin alternatives are leading the way, but distillers are now tapping into dark spirit alternatives as well



"The Clean Vic" by Sainsbury's



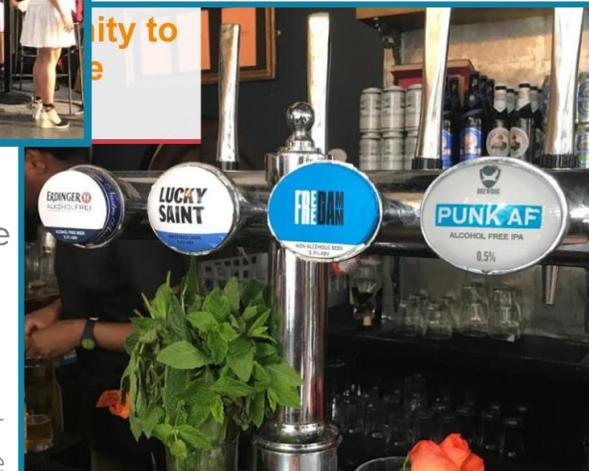
Sainsbury's ran a pop for 2 days, near their head office in Holburn with 20+ no and low alcohol options available. A choice of beers on tap and cocktails, bespoke beer mats and the offer of salty snacks

- This supported premium positioning of no & low alcohol products equivalent to alcoholic choices
- Knowledgeable staff offered product explanations and recommendations

Sainsbury's
No & Low Alcohol Performance

+31.8% category growth
(12 week period)

+33% customers searching for
non-alcoholic products online



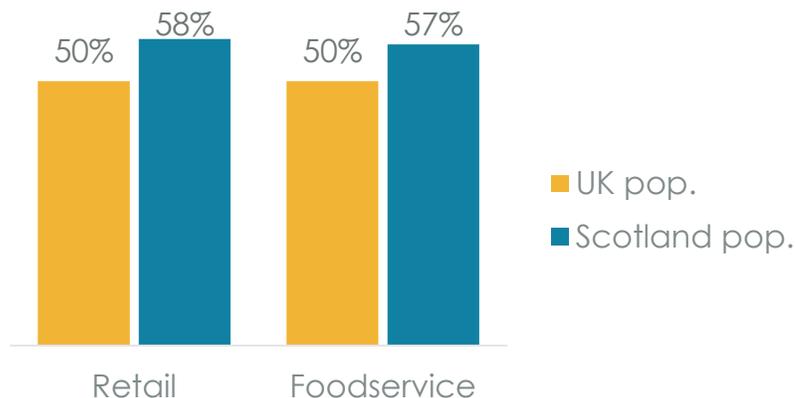
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FORGING THE CRAFT OF SCOTTISH WHISKY

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Availability of local products in retail is important to majority of those in Scotland

1 in 2 of those living in Scotland would be willing to pay more for products labelled 'Scottish'

Those who state it is important to have local products/ ingredients in retail/ foodservice...



Why?

Those who state availability of locally sourced products is important believe so because of environmental concerns, to help boost the local economy and quality, taste and freshness of the product

Perception of Scottish spirits: Those who state better quality vs elsewhere			
Whisky	51% UK pop.	65%* Scotland pop.	76%* Scotland pop. AND buy whisky in retail
Other spirits e.g. gin, rum, vodka	18% UK pop.	23%* Scotland pop.	28%* Scotland pop. AND buy other spirits in retail



49%

Of those living in Scotland claim that they would be willing to pay more for products labelled 'Scottish'

35%

Of those who buy spirits in retail in Scotland claim they would be more likely to buy the product if they knew it was made in Scotland (similar number in foodservice channel 33%)

* Significant difference

Source: Scotland Food & Drink, Local and Scottish Consumer Perception research July 2019 (Exclusive to members of SF&D)

Consumers are seeking unique experiences and enjoy exploring new drinks

Cocktails and other mixer drinks are gaining popularity in both on- and off-trade



Consumers are increasingly placing more emphasis on the value they get from experiences. Consumers want to explore the world of food and drink by discovering and sharing new flavours and experiences. At the same time, consumers are making more premium choices and look out for provenance of product. There has been a rapid growth in the experience-led occasions, the likes of outdoor events, festivals, distillery as well as unique tasting experiences. Furthermore, the nightlife scene is evolving, and more people are socialising at earlier times of the day to spend quality time together. Celebrations and social occasions are boosting the rise of drinks and cocktail sales on-trade.



★ **27%** of consumers choose 'fizzy' cocktails when on a night out with gin and prosecco being the fastest-growing sub-categories on-trade

★ **60%** of cocktail consumers are likely to order a cocktail featured on a food menu

★ Non-alcohol cocktail options or 'Mocktails' are increasing in bars and are particularly popular among people under the age of 35

★ Many retailers seek to offer a real range of serves in the botanical-inspired sparkling cocktails



VC2 has launched a new flavoured gin, blended with passionfruit, aiming to tap into the rising cocktail scene

Google searches for vermouth have grown 30% over the last year reaching 1m searches in 2018. Craft producers are jumping into the category, infusing vermouth with modern twists and local ingredients. Scotland-based agency Artisan Spirits has launched a premium Italian vermouth to tap into the trend



Scotland Food & Drink Market Intelligence Services

We're here to help grow your business on a one-to-one basis

This ensures confidentiality and tailors research and analysis to your business needs

Our market research team can provide you with independent research, analysis and expertise through a range of methodologies, such as primary research (from online surveys to focus groups) and EPOS data analysis. We can support your business growth by working with you on a one-to-one basis – it's a tailored approach that gives you the edge, at membership rates



Understand the market

Know the size of the potential opportunity and whether the category is in growth or decline. We can assist you in uncovering what is happening within your market



Understand and uncover consumer needs

Discover the 'why' that drives consumer behaviour. Propel brand performance by basing decisions on an understanding of customers' current and emergent needs



Demonstrate brand and product performance

Our analysis gains and retains shelf space for Scottish food and drink business by providing insight into your brand (and competitors) performance down to individual product level



Produce successful, innovative products

We can work with you from idea generation to evaluation of the product in market. During development, we help you get closer to consumers to incorporate feedback during the design process

Meet the Market Intelligence team to support your business



HAYLEY BRUCE
**Commercial Market
Intelligence Manager**

**Member of the Market Research Society
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MSc Marketing, Edinburgh Napier University

With 6 years experience, Hayley previously worked within an Insight team of a FTSE 50 company where she led and managed primary research projects. She has experience in quantitative, qualitative and mixed methodology studies over a range of business areas

Since joining Scotland Food & Drink, Hayley has worked on several EPOS data analysis projects for food and drink manufacturers



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MSc Agricultural Business, University of Kiel
Diploma in Dietetics, University Medical Centre Hamburg

Wiebke has a background in quantitative and qualitative research. She is a key member of the Market Intelligence team at Scotland Food & Drink. Over the last 2 years, Wiebke has worked on a range of EPOS data analysis projects and she is the account lead on the analysis of EPOS data for one of our snack food clients, providing regular analysis every 2 months

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